MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC 3674 – ADVANCED MANAGEMENT ACCOUNTING

(All sections / Groups)

15th March 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT:

1. This paper consists of **8** pages excluding cover page with **4** Questions only.
2. Answer **ALL** questions.
3. All questions carry equal marks and the distribution of marks for each question is given.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

MMC Sdn. Bhd.(MMC) is a company involved in the injection molding process of plastic extruders. The company had a process of inspection, checking line work and handling returns from customers to identify and correct quality problems. Scrapped extruders were ground into powder and fed back to the extruders as raw material; thus all scrapped extruders were reused at some point. The company's cost accounting system indicated that the cost of scrap was "zero," a view also held by MMC's management.

MMC believes strongly in producing high-quality products and uses TQM tools to measure quality.

In addition to that, MMC is also actively promoting its products in order to maximise sales.

One of its products, XD11 is used as a subcomponent in appliance manufacturing.

This product has the following information per unit:

	RM
Normal selling price	150
Costs:	
Direct material	20
Direct Labour (0.25 hours @ RM60)	15
Variable manufacturing overhead (0.5 Machine Hour @ RM24)	12
Fixed manufacturing overhead (0.5 Machine hour @ RM60)	30
Shipping and handling	3
Fixed selling and administrative	10
Total cost per unit	90
Profit per unit	60

MMC has received a special order from HTP Sdn. Bhd. (HTP) for 5,000 units of XD11, to be completed in 3 months. HTP requires a modification of the design that will allow a RM2 reduction in direct material costs per unit.

MMC's production supervisor notes that the company will incur RM5,000 in additional set-up costs and will have to purchase a RM4,000 special device to produce these units. The device will be discarded once the special order is completed.

MMC has a total of 60,000 machine hours per year (5,000 machine hours per month).

MMC will allocate RM2,000 of the existing fixed selling and administrative costs to the special order as part of the cost of doing business.

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Required:

a) Define briefly cost of quality categories.
(2 marks)

b) Identify any two activities each for internal and external failure activities, prevention and appraisal activities that could have been employed by MMC.
(4 marks)

c) List the steps in the decision making process.
(3 marks)

d) Assuming MMC has excess capacity, what is the minimum price that is acceptable for beginning negotiations on this order?
(4 marks)

e) Assume that present sales will not be affected and HTP has offered to purchase 5,000 units of XD11 at RM100/unit. Should the order be accepted from a financial point of view? Show your calculations.
(4 marks)

f) Assume that MMC's current production activity consumes 85% of planned machine hour activity. Can the company accept the order and meet deadline?
(4 marks)

g) What options might MMC consider if management truly wanted to do business with HTP in hopes of building a long term relationship with the firm?
(4 marks)

[TOTAL 25 MARKS]

QUESTION 2

PART A

Melaka Corporation Sdn. Bhd. (MCSB) manufactures multiple types of products. MCSB has been approached by XDCMS Sdn. Bhd. and asked to make two products; 2,000 units of Product # 838 and 4,000 units of Product # 103. Currently, MCSB also produces 16,000 units of other products.

The management accountant of MCSB has compiled the products data as below:

	Product # 838	**Product # 103**	**Other products**	**Total**
Production/sales (units)	2,000	4,000	16,000	22,000
Selling price/unit	RM750	RM150		
	RM'000	**RM'000**	**RM'000**	**RM'000**
Total direct material costs	450	150	1,200	1,800
Total direct labour costs	300	100	1,200	1,600

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Total variable production overheads will amount to RM2,400,000 of which 30% relates to direct materials (being the procurement, warehousing, inspection and use of direct material) and 70% are direct labour related.

MCSB currently absorbs variable production overheads into product units using company-wide percentages on total direct material costs (40%) and total direct labour costs (105%).

MCSB will not undertake any work which does not yield an estimated contribution to sales ratio of 30%.

Because profitability has been lagging and competition has been getting more intense, MCSB is considering to implement Activity-based costing system. The management accountant has identified the following:

Activities	**Cost Drivers based on Total Volume Factor**			**Total Cost Drivers**
	Product #838	**Product #103**	**Other Products**	
Material related variable overhead	8,000	28,000	64,000	100,000
Labour related variable overhead	12,000	20,000	64,000	96,000

All computations are to be rounded to two decimal places.

Required:

i) Identify TWO (2) general advantages associated with activity-based costing.
(2 marks)

ii) Calculate variable cost per unit and contribution to sales ratio of Product #838 and Product #103 using traditional costing method.
(3 marks)

iii) Calculate variable cost per unit and contribution to sales ratio of Product#838 and Product #103 using activity-based costing method.
(4 marks)

iv) Explain how the comparison of the results of the two costing methods could impact the decisions made by MCSB's management.
(5 marks)

v) Identify potential non-value added activities in MCSB and what suggestions would you have for MCSB to improve the competitiveness of the company's products in the marketplace?
(5 marks)

Continued...

PART B

Describe downsizing, its causes, and its primary risks.

(6 marks)

[TOTAL: 25 MARKS]

QUESTION 3

PART A

Kamil, manager of a Dairy Products Division, was pleased with his division's performance over the past three years. Each year, divisional profits has increased, and he had earned a sizable bonus. (Bonuses are a linear function of the division's reported income.) He had also received considerable attention from higher management. A vice president had told him in confidence that if his performance over the next three years matched his first three, he would be promoted to higher management.

Determined to fulfill these expectations, Kamil made sure that he personally reviewed every capital budget request. He wanted to be certain that any funds invested would provide good, solid returns. (The division's cost of capital is 10 percent.) At the moment, he is reviewing two independent requests. Proposal A involves automating a manufacturing operation that is currently labour intensive. Proposal B centers on developing and marketing a new ice cream product. Proposal A requires an initial outlay of RM250,000 and Proposal B requires RM312,500. Both projects could be funded, given the status of the division's capital budget. Both have an expected life of six years and have the following projected after-tax cash flows:

Year	Proposal A (RM)	Proposal B (RM)
1	150,000	(37,500)
2	125,000	(25,000)
3	75,000	(12,500)
4	37,500	212,500
5	25,000	275,000
6	12,500	337,500

After careful consideration of each investment, Kamil approved funding of Proposal A and rejected Proposal B.

Required:

i) Compute the net present value for each proposal.

(4 marks)

ii) Compute the payback period for each proposal.

(4 marks)

Continued...

iii) According to your analysis, which proposal(s) should be accepted? Explain.

(2 marks)

iv) Explain why Kamil accepted only Proposal A. Considering the possible reasons for rejection, would you judge his behaviour to be ethical? Explain.

(5 marks)

PART B

Additionally, Dairy Products decided to look more closely at the materials receiving activity in its factory. The driver for receiving is the number of receiving orders. The following information for a year was collected:

Demand for receiving orders: 130,000

Resources needed:

- 6 workers capable of completing 25,000 receiving orders per year. (The completion of a receiving order requires unloading the materials onto the receiving dock, checking the receiving order against the purchase order and invoice, and carrying the materials to the materials storeroom.) Salary is RM27,000 for each worker.
- Supplies (paper, grease markers, small tools, rags) expected to cost RM0.80 per receiving order.
- Workbenches, dollies, computers, etc.; depreciation RM14,400 per year.
- Space for the receiving dock, utilities; RM9,800 per year.

Required:

i) Prepare a static budget for the receiving activity for the year.

(4 marks)

ii) Calculate the cost per receiving order based on annual demand for receiving orders.

(1 mark)

iii) Why would an activity-based performance report be more accurate than a report based on a traditional flexible budget? Explain.

(2 marks)

iv) Why is it common to find *slack* in budgets? Discuss.

(3 marks)

[TOTAL: 25 MARKS]

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QUESTION 4

PART A

Desa Waja Berhad is a Malaysian multinational company. It has three operating divisions, Components Division, Goods Division and Products Division. Both Components Division and Goods Division are located in Malaysia whereas Product Division is situated in Indonesia.

The Components Division produces Part X that is used by the Goods Division. The cost of manufacturing Part X is as follows:

	RM
Direct materials	10
Direct labour	2
Variable overhead	3
Fixed overhead*	5
Total cost	20

**Based on a practical volume of 200,000 parts.*

Other costs incurred by the Components Division are as follows:

Fixed selling and administrative	RM500,000
Variable selling	RM1 per unit

Part X usually sells for between RM28 and RM30 in the external market. Currently, the Components Division is selling it to external customers for RM29. The division is capable of producing 200,000 units of the part per year; however, because of a weak economy, only 150,000 parts are expected to be sold during the coming year. The variable selling expenses are avoidable if the part is sold internally.

The Goods Division has been buying the same part from an external supplier for RM28. It expects to use 50,000 units of the part during the coming year. The manager of the Goods Division has offered to buy 50,000 units from the Components Division for RM18 per unit.

Required:

i) Determine the minimum transfer price that the Components Division would accept. (2 marks)

ii) Determine the maximum transfer price that the manager of the Goods Division would pay. (1 mark)

iii) Should an internal transfer take place? Why or why not? If you were the manager of the Components Division, would you sell the 50,000 components for RM18 each? Explain. (3 marks)

Continued...

iv) Suppose that the average operating assets of the Components Division total RM10 million. Compute the Return on Investment (ROI) for the coming year, assuming that the 50,000 units are transferred to the Goods Division for RM21 each.

(8 marks)

v) Additionally, the Components Division produces Part Y that is used by the Products Division. In setting transfer price for both divisions, how Desa Waja Berhad will consider the tax implication? Explain.

(3 marks)

vi) Suppose that Desa Waja Berhad is using the Balanced Scorecard as their performance management system. Explain how does the Balanced Scorecard communicate strategy to the organization? How is strategy translated into performance measures?

(4 marks)

PART B

Answer the following questions pertaining to just-in-time (JIT) inventory management:

i) Identify key elements of the JIT philosophy.

(2 marks)

ii) What elements of the JIT approach contribute to reducing materials inventory?

(2 marks)

[TOTAL: 25 MARKS]

Appendix

Present Value of $1

Periods	4%	6%	8%	10%	12%	14%	16%	18%	20%
1	.962	.943	.926	.909	.893	.877	.862	.847	.833
2	.925	.890	.857	.826	.797	.769	.743	.718	.694
3	.889	.840	.794	.751	.712	.675	.641	.609	.579
4	.855	.792	.735	.683	.636	.592	.552	.516	.482
5	.822	.747	.681	.621	.567	.519	.476	.437	.402
6	.790	.705	.630	.564	.507	.456	.410	.370	.335
7	.760	.665	.583	.513	.452	.400	.354	.314	.279
8	.731	.627	.540	.467	.404	.351	.305	.266	.233
9	.703	.592	.500	.424	.361	.308	.263	.225	.194
10	.676	.558	.463	.386	.322	.270	.227	.191	.162

Present Value of a Series of $1 Cash Flows

Periods	4%	6%	8%	10%	12%	14%	16%	18%	20%
1	0.962	0.943	0.926	0.909	0.893	0.877	0.862	0.847	0.833
2	1.886	1.833	1.783	1.736	1.690	1.647	1.605	1.566	1.528
3	2.775	2.673	2.577	2.487	2.402	2.322	2.246	2.174	2.106
4	3.630	3.465	3.312	3.170	3.037	2.914	2.798	2.690	2.589
5	4.452	4.212	3.993	3.791	3.605	3.433	3.274	3.127	2.991
6	5.242	4.917	4.623	4.355	4.111	3.889	3.685	3.498	3.326
7	6.002	5.582	5.206	4.868	4.564	4.288	4.039	3.812	3.605
8	6.733	6.210	5.747	5.335	4.968	4.639	4.344	4.078	3.837
9	7.435	6.802	6.247	5.759	5.328	4.946	4.607	4.303	4.031
10	8.111	7.360	6.710	6.145	5.650	5.216	4.833	4.494	4.192

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